

**Attachment 1**  
**USAID / KYRGYZ REPUBLIC**  
**RFI - ENTERPRISE DEVELOPMENT PROJECT**

**I. BACKGROUND**

USAID requests comments and recommendations for a proposed project that aims to solve firm-specific constraints faced by small and medium size enterprises (SMEs) so that they can expand, increase sales, and generate employment. Firm-specific constraints are understood to include market, management, technological, production and financial at the SME level or, if applicable, within a cluster of client SMEs rather than sectoral or value chain level constraints. While some constraints are common to most SMEs (i.e., limited access to investment capital), USAID recognizes that every firm is different, especially as it relates to the firm's human capacity (owners, managers, and employees) and their willingness to assume and manage risks associated with growth strategies. Firm-specific solutions are viewed as tailored transactional assistance activities undertaken in partnership with the SMEs. These solutions would be deployed only after a ready buyer or market for the SME's goods and services is clearly established. The buyer/market demands (including those of export markets) define the SME growth potential, and the transactional assistance interventions would be prioritized and funded based on the quantified potential of the SME to transact with the identified buyers or markets. The effort will provide firm-specific solutions to SMEs that can yield the highest development impact in the most cost effective manner for USAID. This entails working in partnership with local and international companies that are procuring and sourcing goods and services SMEs produce.

Since the growth of an SME often requires commensurate investment or working capital the effort will seek to leverage private capital and expertise alongside USAID funding. Specifically, the project will apply an integrated approach that satisfies the needs for markets, finance, investment, entrepreneurship, and innovation to unlock growth. Based on the success of the transactional assistance, the project should anticipate increased need for financing solutions and long-term capital from investment-ready SMEs. To meet the financing needs of SMEs the effort will leverage capital and expertise from investors and asset management firms that can evaluate, manage, and implement investment transactions with both impact (increased revenues and jobs) and financial return mandates. This includes working with firms, organizations, and individuals with the resources and expertise to i) create and implement financial products tailored to SMEs and/or, ii) structure, capitalize, and manage an investment vehicle (comprised of local or off-shore capital) to finance SMEs. The project ultimately intends to offer a financially sustainable solution to provide necessary capital to a "missing-middle" of SMEs that are not presently served by banks, microfinance or international financial institutions.

The project will focus solely on two firm-specific development outcomes that would be directly attributable to USAID--increased sales and employment generation. The project will adhere to a disciplined approach in the selection of SMEs that applies both financial and operational criteria based on USAID costs per outcome. It will ensure that transactional assistance support and investment capital services are integrated in a financially sustainable strategy that can produce outcomes in the absence of USAID funding.

The effort will build on USAID/Kyrgyz Republic's past, present and future investments in economic growth, health, and democracy and governance. As it relates to health activities, this could include service delivery enterprises with potential market or buyer opportunities. Given Kyrgyzstan's large youth

population and the higher than average unemployment among youth, USAID encourages innovative ideas for creating sustainable youth employment.

The intended project will support activities nationwide in the Kyrgyz Republic, and the budget is anticipated to be up to \$24 million over five years.

**USAID seeks your input, comments, and recommendations on the following goal, objectives, assumptions and questions.**

## **II. GOAL AND OBJECTIVES**

**Goal:** Broad-based and diversified economic growth accelerated.

**Objective:** Sales of Kyrgyz enterprises expanded.

**Sub-Objective:** Private sector jobs in the Kyrgyz Republic created and sustained.

The outcomes are the project's objectives and, as described in the previous section, USAID is interested in exploring a tailored transactional assistance component alongside leveraged private sector capital and expertise to realize these objectives. In addition, the project could consider a systemic support component that i) establishes a cost efficient solution to gather timely and reliable market intelligence from the SMEs and document, prioritize, and recommend practical solutions to address the most significant policy, regulatory and institutional constraints; and ii) coordinates with other USAID policy activities to resolve systemic constraints once it is determined that proposed interventions are politically feasible, cost effective, and time efficient.

## **III. ASSUMPTIONS**

- Performance-based incentives can drive impact, and project staff, private sector partners, and client SMEs can assume greater implementation risks in the successful delivery of outcomes.
- While some constraints may be common, SME owners and managers are different and a standardized approach may not be effective.
- Many SMEs are not ready from an ownership or strategic management perspective to court new markets and buyers. They may find it difficult to understand the buyers' requirements or standards and may not be comfortable taking the risk and making the investment to secure new sales outlets.
- Transactional assistance to facilitate profit-driven and sustainable buyer-seller relationships can yield meaningful outcomes.
- A disciplined SME selection approach that adheres to quantifiable financial and operational criteria, including costs per outcomes measured at the firm level, can ensure that USAID assistance is cost-effective and impact is maximized.
- The project should focus on the sustainability of profit-driven buyer-seller transactions not on the sustainability of business development service providers.
- Paired with technical assistance and rigorous monitoring, private capital can be leveraged to foster business growth and promote entrepreneurship and innovation.

- USAID can catalyze sufficient capital and expertise from domestic and international sources in support of the intended outcomes, and the project can reach a critical mass of investment ready SME to attract investors and allow investment management costs to be reasonable.
- Instead of technical or sectoral specialists, the project needs business generalists or experienced entrepreneurs that can gain the commitment of risk-averse business owners and managers, facilitate solutions to the identified constraints, establish relationships and trust between supply chain participants, and match SMEs with domestic and international buyers.
- Under a personnel and management structure geared to gain the commitment and support of client SMEs, it is possible to identify and deploy in a timely manner a cadre of experienced local business experts (and international consultants when needed).
- There is an optimal number of SMEs per project staff to maintain quality and “personalize” services.
- The project can implement effective monitoring and evaluation systems in order to hold all stakeholders accountable to outcomes rather than outputs.

#### **IV. QUESTIONS**

- What types of technical partners/capabilities are needed to best leverage capital, foster the expansion of SMEs, and promote entrepreneurship and innovation?
- Under a performance-based award, what types of incentive systems would be most effective to motivate project staff? What is the optimal incentive structure to ensure results?
- What is an optimal combination of local and international staff in support of the project outcomes?
- What is your organization’s capacity to facilitate and manage a project like the one described?
- What is the optimal balance among project components (e.g. transactional assistance, technical consulting, capital provision, and monitoring and evaluation) to best achieve intended outcomes (i.e., each component out of 100%)?
- Should an investment vehicle drive the transactional support activities, or should the transactional support activities drive the investment vehicle?
- Is there an optimal balance between development outcomes and financial returns, and how would this be achieved and measured?
- What is the potential for this project to simultaneously maximize buyer-seller transactions and improve livelihoods for women and/or youth entrepreneurs?
- How much private capital and expertise from domestic and international sources can USAID anticipate to leverage for the project (as a ratio of USAID funding to private capital resources)? What are the main incentives to secure those private sector resources?
- Which types of financial products, tailored financing solutions and/or financing structures should the project prioritize and what should their roles be?
- Should resource partners be encouraged to commit capital for the project prior to awarding the procurement?

- How can long-term financial sustainability be built into project activities, particularly for any financial products or investment vehicles?
- When selecting client SMEs, what other criteria (along with sales and jobs) should be considered?
- What familiarity does your organization have with the current dynamics of the Kyrgyz SME market, from either an investment capital supply or business demand perspective?
- What is the current and potential capacity of SMEs to integrate with supply chains, or supply local and international procurement needs? What are the major challenges for SMEs to increase sales and generate employment?
- What sectors or geographies have the highest impact potential and how much flexibility should the project have in selecting and targeting SMEs?
- Any other suggestions you may wish to offer that will improve project implementation.